E-Filed
March 26, 2004

NOT FOR CITATION

IN THE UNITED STATES DISTRICT COURT

FOR THE NORTHERN DISTRICT OF CALIFORNIA

SAN JOSE DIVISION

TECHNOLOGY LICENSING CORPORATION,

Plaintiff,

v.

GENNUM CORPORATION,

Defendant.
______________________________________/

NO. 3:01-cv-4204-RS

ORDER GRANTING IN PART GENNUM'S IN LIMINE MOTION TO EXCLUDE TLC'S REASONABLE ROYALTY METHODOLOGY

I. Introduction

Defendant Gennum Corporation ("Gennum") filed a motion in limine to exclude plaintiff Technology Licensing Corporation's ("TLC") theory and claim for reasonable royalty damages, including the testimony of its damages expert, Mr. Nicholas Feakins ("Feakins"), based on the contention that TLC's measure of damages fails to comport with controlling Federal Circuit law. Alternatively, Gennum requested that the Court hold a hearing pursuant to <u>Daubert v. Merrell Dow Pharmaceuticals, Inc.</u>, 509 U.S. 579 (1993), to assess the reliability and methodology of TLC's damages expert. The Court granted Gennum's request for a hearing and conducted a <u>Daubert</u> proceeding on March 19, 2004. Based on all papers filed to date, as well as on the oral argument of counsel at the hearing, the Court grants Gennum's motion to exclude evidence and testimony regarding part of Feakins' reasonable royalty methodology, for the reasons set forth below. Specifically, Feakins may testify with respect to a portion of his proposed reasonable royalty analysis as further described in this order. The remainder of his proffered testimony, however, will be excluded at trial.

II. Background

This action concerns conflicting claims of invalidity and infringement of two United States Patents, Nos. 5,486,869 ("the '869 patent") and 5,754,250 ("the '250 patent"), both of which are titled, "Synchronizing Signal Separating Apparatus and Method" and describe generally an invention which detects and synchronizes video type signals to improve such signals and create clearer, sharper pictures on receiving equipment, such as televisions. The '250 patent is a continuation-in-part of the '869 patent. The named inventor on both patents is J. Carl Cooper, who assigned all substantial rights in the patents to TLC, his licensing company.

Gennum is a Canadian, high-technology company that designs, manufactures, and markets silicon integrated circuits ("ICs"), chips, modules, and thin-film hybrid microcircuit components for a variety of applications in three target markets: video products, hearing instrument products, and data communications. At issue in this dispute are two families of chips manufactured by Gennum, the GS1881, GS4881, and GS4981 sync separators ("the ‹81 products") and the GS4882 and GS4982 sync separators ("the ‹82 products"), which TLC alleges infringe various claims of the '869 and '250 patents, either directly under 35 U.S.C. § 271(a), or indirectly under 35 U.S.C. § 271(b) and/or (c). [1]

Trial is presently scheduled to begin on April 6, 2004. Accordingly, the Court conducted a Daubert hearing to address the methodology utilized by TLC's expert in calculating TLC's damages. Rule 702 of the Federal Rules of Evidence permits an expert to testify if such testimony will "assist the trier of fact to understand the evidence or to determine a fact in issue." In Daubert v. Merrell Dow Pharmaceuticals, 509 U.S. 579 (1993), the Supreme Court directed that under Rule 702, the trial judge must ensure expert testimony based on scientific, technical or other specialized knowledge is not only relevant but reliable. Id. at 589. Daubert's

[1] This action initially was filed by TLC against third-party, Videotek, Inc. In May of 2002, Videotek filed a third-party complaint against Gennum, alleging that Gennum manufactured semiconductor chips which Videotek then incorporated into products that TLC contends infringe its patents. Gennum answered Videotek‹s complaint and filed a cross-complaint against TLC for declaratory judgment of non-infringement and invalidity of the ‹869 and ‹250 patents. TLC answered Gennum‹s complaint and counter-claimed for infringement. The only claim at issue in this trial is Gennum's claim for declaratory relief as to validity and non-infringement. All remaining claims have been stayed by Judge Breyer. The underlying dispute between TLC and Videotek has been resolved.

"gatekeeping" obligation has subsequently been extended to cover all expert testimony, not just that characterized as "scientific." See Kumho Tire Company, Ltd. v. Carmichael, 526 U.S. 137 (1999); DSU Medical Corp. v. JMS Co., Ltd., 296 F.Supp.2d 1140 (N.D. Cal. 2003).

During his deposition, Feakins conceded that the methodology he advances in this case: (1) has not been tested; (2) has not been subjected to peer review and publication; and, (3) has not gained acceptance as a method for patent damages calculation. See Feakins Deposition at pp.252-253.[2] While acknowledging Federal Circuit caselaw holds that a reasonable royalty calculation is based on a hypothetical negotiation between the patentee and the infringer before the infringing activity began, Integra Lifesciences I, Ltd. v. Merck KGAA, 331 F.3d 860, 869 (Fed. Cir. 2003), Feakins explains that, in his view, such an award here would not adequately compensate TLC for the infringement by Gennum, as required by 35 U.S.C. § 284 (2000) (damages in a patent infringement case are awarded "to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer."). See Feakins Depo. at p. 234. Therefore, Feakins testified that, in addition to calculating a reasonable royalty rate which would have been reached between Gennum and TLC, he applied a multiplier to compensate TLC "because of the discrepancy in selling prices between a manufacturer of a component and a manufacturer of a finished product." See Feakins Deposition at 240; Feakins' Report, dated August 17, 2003 at p. 11.

Gennum argues that the Court should exclude TLC's reasonable royalty methodology, as reflected in Feakins' analysis, under the Daubert and Kumho cases. It contends that the methodology proposed by TLC is neither reliable, relevant, nor consistent with prevailing Federal Circuit law. Consequently, Gennum posits that the Feakins' methodology should be precluded under Evidence Rules 402 and 403 because such proffered testimony will not "assist the trier of fact to understand the evidence or determine a fact in issue." Fed.R.Evid. 702.

TLC responds that Feakins' expert reports are based on sufficient facts and data in support of its theory that Gennum's manufacture and sale of infringing chips has enabled the further infringement by manufacturers, such as Videotek and Ross Video, whose use of the infringing Gennum chips dramatically increases the value

[2] Gennum does not dispute that Feakins is qualified to testify as a damages expert in patent cases.

of their products.

III. Legal Standards

Federal Rule of Evidence 702 provides that an expert witness with "scientific, technical, or other specialized knowledge" may testify in the form of an opinion "if (1) the testimony is based upon sufficient facts or data, (2) the testimony is the product of reliable principles and methods, and (3) the witness has applied the principles and methods reliably to the facts of the case." Fed.R.Evid. 702. Accordingly, Daubert requires that the trial judge determine "whether the reasoning or methodology underlying the testimony is scientifically valid and whether that reasoning or methodology can properly be applied to the facts at issue." Daubert, 509 U.S. at 592-593. To aid the trial judge in making this determination, the Daubert Court provided a list of non-exclusive factors to consider, including:

> (1) whether the scientific theory or technique can be (and has been) tested;
> (2) whether the theory or technique has been subjected to peer review and publication;
> (3) whether there is a known or potential error rate; and,
> (4) whether the theory or technique is generally accepted within the relevant scientific community.

Daubert at 592-594.

"Thus, trial judges are responsible for determining whether the knowledge of the expert, whether scientific, technical, or specialized, is based upon the application of reliable theories or techniques. The proponent of the testimony must establish admissibility by a preponderance of the evidence." DSU Medical Corp. v. JMS Co., Ltd., 296 F.Supp.2d at 1146, citing Bourjaily v. United States, 483 U.S. 171, 175-176 (1987).

Further, the Supreme Court has held that, in cases involving non-scientific testimony, district courts are not limited to the Daubert factors in assessing the reliability of the proffered expert testimony. Kumho Tire Co, Ltd. v. Carmichael, 526 U.S. at 150-151. Rather, they enjoy broad discretion in determining both how to assess reliability and whether it exists. Id.

Notwithstanding that broad discretion, in determining the reliability of expert testimony, the trial court is limited to considering the methodologies relied upon by the expert, rather than the conclusions reached by such expert. See U.S. v. Bonds, 12 F.3d 540, 563 (6th Cir. 1993). "It is not the trial court's role to determine whether the expert's conclusions are actually correct." Id.; 4-702 Weinstein's Federal Evidence § 702.05. Rather, the trial court's sole purpose is to determine the reliability of a particular expert's opinion through a preliminary assessment of the methodologies supporting such opinion. Daubert, 509 U.S. at 592-593. If a trial court finds that "there is simply too great an analytical gap between the data and the opinion proffered," then the evidence may be excluded. DSU Medical Corp. v. JMS Co., Ltd., 296 F.Supp.2d at 1147; quoting in part, General Elec. Co. v. Joiner, 522 U.S. 136, 147 (1997).

In this regard, the DSU Medical Corp. decision, as well as the Micro Chemical, Inc. v. Lextron, Inc., 317 F.3d 1387 (Fed. Cir. 2003) case discussed therein, are instructive since both cases distinguish between the trial court's factual review, which generally falls outside the scope of its gatekeeping role, and review of the legal methodology underlying the expert's opinion, which generally remains within it. In Micro Chemical, the Federal Circuit affirmed the trial court's finding that the proffered expert testimony properly applied the conceptual framework of a hypothetical negotiation between patentee and alleged infringer in computing reasonable royalty damages. Micro Chemical, 317 F.3d at 1393-1394. Since the applicable factors had been properly applied to the disputed facts, the trial court concluded, and the Federal Circuit agreed, that the expert was not legally erroneous in his methodology and could, therefore, testify at trial.

In contrast, the DSU court recently concluded that expert testimony was inadmissible at trial because the proffered methodology was not grounded on established legal principles and was so divorced from the economic realities of the situation as to be speculative. DSU, 296 F.Supp.2d at 1156. In a well-reasoned and detailed opinion, Judge Jensen of this Court reviewed the gatekeeping function set forth in the Daubert and Kumho cases and concluded that the proffered opinion of the patent damages expert must be excluded since it was based on unacceptable methodology. Id.[3]

IV. Discussion

Title 35 U.S.C. § 284 provides that "[U]pon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court." 35 U.S.C. §

[3] The DSU decision obviously belies TLC's assertion that no court has ever excluded the testimony of a patent damages expert in conjunction with a Daubert hearing.

284 (2002). Thus, the statute establishes a floor below which damage awards may not fall. Del Mar Avionics, Inc. v. Quinton Instrument Co., 836 F.2d 1320, 1326 (Fed. Cir. 1987).

The general rule for determining actual damages to a patentee that is itself producing the patented item is to determine the sales and profits lost to the patentee because of the infringement. Id. at 1326; State Indus., Inc. v. Mor-Flo Indus., Inc., 83 F.2d 1573, 1577 (Fed. Cir. 1989). In those cases for which a patentee cannot establish entitlement to lost profits, the statute provides entitlement to no less than a reasonable royalty on an infringer's sales. 35 U.S.C. § 284 (2002); Hanson v. Alpine Valley Ski Area, Inc., 718 F.2d 1075, 1078 (Fed. Cir. 1983) ("If actual damages cannot be ascertained, then a reasonable royalty must be determined."). The royalty may be based upon an established royalty, if there is one, or, if not, upon the results of a hypothetical negotiation between the patentee and the infringer. Id. The hypothetical negotiation requires that the court envision a licensing agreement reached between the parties at the time the infringement began. Id.[4]

The parties here concede that lost profit damages are not available since TLC does not manufacture or produce any product. Rather, it is simply engaged in the business of licensing the technology covered by the patents assigned to it. Therefore, TLC contends that it is relying on a reasonable royalty damages theory in this action. More specifically, TLC's expert, Feakins, opines that in this particular circumstance, the appropriate measure of damages is to "determine the total royalties that TLC would have received from product manufacturers had it been able to license its technology to them." See, Feakins Report, dated August 17, 2003 at p. 10. Feakins explains that, although TLC has established standard royalty rates of 7.2% for commercial products and 1.8% for consumer products, the use of such rates in this case "would work an injustice because of the enormous economic harm the Defendants have inflicted upon TLC by taking from it the far greater royalties that TLC would have enjoyed had its technology not been misappropriated by Gennum, and instead, it had received royalties from product manufacturers." Id.

Accordingly, Feakins states that the starting point for the damages calculation here "is to determine what

[4] This hypothetical negotiation is also referred to as a "willing licensor/willing licensee" negotiation. Of course, the courts have recognized that this is an inaccurate, even fanciful, construct when, as here, the patentee does not wish to grant a license. Rite-Hite Corporation v. Kelley Company, Inc., 56 F.3d 1538, 1554, fn. 13 (Fed. Cir. 1995).

royalty rate the parties would have arrived at had Gennum manufactured a finished product." Id. at p. 11. Since Gennum does not, however, engage in such manufacture, Feakins examined the selling price of a finished product for one of Gennum's customers: Videotek. That company's finished products, according to Feakins, sell for 5,320 times more than the relevant Gennum chips, which sell for $2.60 per piece[5]. Therefore, Feakins assumes that the royalty obtained by TLC would have been proportionately greater because of the increased profit contribution generated by manufactured products. Based on his calculations, Feakins concludes that the royalty would be roughly 10,981 times greater if TLC licensed manufacturers of finished products than if TLC simply licensed component parts manufacturers such as Gennum.[6]

Feakins then examines Gennum's average gross profits on its infringing chips for the time period between 1993 and 2003. Feakins concludes that Gennum's average profits on these chips for this time period were 34%. He then subtracts 5% for sales and marketing costs and concludes that Gennum enjoyed an average profit contribution of 29% on its infringing products from 1993 to 2003.

Feakins next opines that it is reasonable to assume, based on his profit calculation, that the parties would have agreed to a royalty rate between the 7.2% standard rate charged by TLC and the 29% profit margin realized by Gennum. He then concludes that "the most reasonable assumption is that the parties would split the 22% difference even, i.e., that a reasonable royalty rate would be approximately 18% (i.e., 11% + 7.2%), which would leave Gennum with a reasonable profit after paying the royalty." Id.

Feakins further concludes that the application of an 18% royalty rate in this case would be unjust based on TLC's contention that it would have enjoyed royalties from product manufacturers had its technology not been misappropriated by Gennum. Therefore, Feakins states that the calculated royalty rate must be multiplied by two additional numbers in order to calculate the total amount of damages suffered by TLC. These numbers

[5] All prices reflect Canadian dollars, as stated in Feakins report.

[6] See Feakins Report, dated August 17, 2003, at p. 8.

are 10,981[7] and one-half of 1% of Gennum's 316 customers[8] who purchased allegedly infringing components. Based on this methodology, Feakins concludes that TLC's total damages in this case are $77,248,235.00.

During his deposition, Feakins conceded his conclusion that TLC would have been able to license one-half of 1% of Gennum's customers was "purely judgmental" on his part. See Feakins Deposition at pp. 240, 242. He further conceded that he had not done any analysis, investigation or study of which two or fewer of Gennum's customers TLC would have been able to license, as represented by this figure. Id. at 240-241. Feakins also acknowledged that TLC is unaware of the identity of Gennum's customers, id. at 243-244, or the existence of any judicial decisions which supports his use of a multiplier in calculating reasonable royalty damages. Id. at 252. In fact, Feakins concedes that this is the first case in which he has posited his theory that a multiplier should be used. Id. Nevertheless, Feakins contends that the support for his theory is derived from Federal Circuit caselaw, namely, the Stickle v. Heublein, Inc., 716 F.2d 1550 (Fed. Cir. 1983) and Maxwell v. J. Baker, Inc., 86 F.3d 1098 (Fed. Cir. 1996) cases.

In Stickle, the Federal Circuit held that, while the district court correctly proceeded to determine a reasonable royalty based on a hypothetical negotiation, it failed to consider "the actual negotiations between the parties" as well as evidence introduced by the defendant which negated that a royalty based on the number of units produced by its machine would flow from such hypothetical negotiations. Id. at 1561. Therefore, the Federal Circuit concluded, after reviewing the evidence omitted from the district court's analysis, that a royalty must be based on a lump-sum payment for each machine rather than on the defendant's production. Id. at 1563. In so doing, the Court noted that the trial court could award an amount of damages greater than a reasonable royalty so that the award would be adequate to compensate for the infringement. The Circuit stated that "the infringer would have nothing to lose, and everything to gain if he could count on paying only the normal, routine royalty non-infringers might have paid. As said by this court in another context, the infringer would be in a 'heads-I-win, tails-you-lose' position." Stickle at 1563, quoting Panduit Corp. v. Stahlin Bros. Fibre Works, Inc., 575 F.2d 1152, 1158 (6th Cir. 1978). It then concluded that an increase in the damages award

[7] This number represents the greater royalty that Feakins contends TLC would have been able to obtain had it been able to license end product manufacturers. Feakins Report, dated August 17, 2003, at p. 8.

[8] Feakins testified that, statistically, this number would be fewer than two customers. Feakins Deposition at p. 240.

could be stated as either a reasonable royalty *for an infringer*, as in Panduit, or as an increase in the reasonable royalty determined by the trial court in its discretion. Id.

In Maxwell v. J. Baker, Inc., 86 F. 3d at 1110, the Federal Circuit determined that the jury's award based on both a reasonable royalty and on its determination that the patent owner was damaged in excess of the royalty amount was proper and supported by substantial evidence. The Circuit reiterated that reliance on the hypothetical negotiation model for determining damages "risks creation of the perception that blatant, blind appropriation of inventions patented by individual, nonmanufacturing inventors is the profitable, can't-lose course." Id. at 1109, quoting Fromson v. Western Litho Plate and Supply Co., 853 F.2d 1568, 1575 (Fed. Cir. 1988). It noted that, to avoid such a result, the fact finder may consider additional factors to determine adequate compensation for the infringement. Maxwell, 86 F.3d at 1109. "These factors include royalties received by the patentee for the licensing of the patent in suit, opinion testimony of qualified experts, the patentee's relationship with the infringer, and other factors that might warrant higher damages. See Georgia-Pacific Corp. v. United States Plywood Corp., 318 F.Supp. 1116, 1120 (S.D.N.Y. 1970)." Id. The fact that an infringer had to be ordered by a court to pay damages may also be considered by the fact finder. Id. at 1110.

The Maxwell court also noted that its opinion was not inconsistent with its earlier decision in Mahurkar v. C.R. Bard, Inc., 79 F.3d 1572 (Fed. Cir. 1996), in which it had held that a district court may not increase a reasonable royalty by a "kicker" based on litigation or other expenses. "Here, the court did not award enhanced damages or fees. Instead, pursuant to instructions from the court, the jury awarded damages adequate to compensate Maxwell for the infringement, as called for by the statute." Maxwell, 86 F.3d at 1110, fn. 4.

It is clear from a review of both the Stickle and Maxwell cases, as well as the additional authorities cited therein, that the Federal Circuit has sanctioned the application in appropriate cases of additional factors to the fact finder's determination of a reasonable royalty based on the existence of a hypothetical negotiation between the patent holder and licensee. These factors are identified and discussed extensively in Georgia-Pacific Corp. v. United States Plywood Corp., 318 F. Supp. at 1120. However, it is equally clear from these cases that the Federal Circuit has never sanctioned the application of a multiplier to a reasonable royalty, as

Feakins proposes to do in the present case.

TLC acknowledges that Feakins' approach is "novel" but argues, nonetheless, that it is a permissible extension of the Federal Circuit's analysis in the Stickle and Maxwell cases and should, therefore, be permitted to be presented to the jury for determination. TLC notes that a district court recognized that while "thorny problems of admissibility arise when an expert seeks to base his opinion on novel or unorthodox techniques that have yet to stand the tests of time to prove their validity," see, Cayuga Indian Nation of New York v. Pataki, 83 F.Supp.2d 318, 323 (S.D.N.Y. 2000), nevertheless, novel expert testimony does not automatically offend Rule 702. The Cayuga decision, however, is not helpful or instructive in this particular instance because that case presented a unique situation in which all three expert appraisers *agreed* that they were faced with a novel appraisal issue and, therefore, were required to rely upon their own training, experience, and education to devise a valuation methodology which each believed workable for the unprecedented task. Id.

This patent infringement action does not present such a novel situation. Rather, this case involves a patent holder seeking relief for the alleged infringement of its patents from a component manufacturer. Neither party, including TLC, suggests that this action presents a case of first impression. To the contrary, Feakins classifies his methodology as an application of the Federal Circuit's ordinary, reasonable royalty damages calculation. See Feakins Deposition at pp. 250-251. However, rather than adopting the approach applied by the Maxwell court[9] and determining, first, a reasonable royalty and, second, applying the factors enunciated in Georgia-Pacific to ascertain any additional damages award which might arguably be sufficient fully to compensate TLC for the infringement, Feakins admittedly created a novel methodology wherein he simply "used his judgment" to arrive at figures he determined were "reasonable" and "conservative" based purely on the profits of one of Gennum's customers: Videotek. See Feakins Deposition at pp. 240-244.

TLC has failed to present any evidence to support its assertion that it is reasonable or permissible to utilize Videotek's profit margins, rather than Gennum's, simply because Videotek is an end user. Feakins posits two reasons for this approach: (1) it would never be in TLC's interest to license its technology to a component manufacturer because such party's profits margins will always be substantially less than those of the

---

[9] In fact, Feakins concedes that **no** case has ever applied the methodology he now advocates. Feakins Deposition at p. 252.

manufacturer of the finished product and, (2) Gennum has inflicted "enormous economic harm" upon TLC by "taking from it the far greater royalties that TLC would have enjoyed had its technology not been misappropriated by Gennum." See Feakins Report, dated August 17, 2003, at pp. 7, 10. These arguments are, however, both factually and legally flawed.

First, TLC has presented no evidence either that the custom and practice in the industry is for a licensor to negotiate with an end-user rather than with a component parts manufacturer or that it has successfully implemented such an approach. Second, there is no evidence which supports TLC's assertion that Gennum's conduct operated to take from it "far greater royalties" than TLC would have otherwise obtained. Not only is the record completely devoid of any evidence that, prior to this litigation, TLC had negotiated a license with any of Gennum's end-users, but moreover, Feakins conceded that he was unaware of any impediment to TLC seeking to obtain such licenses.[10] See Feakins Deposition at pp. 220, 231, 241. Third, the record indicates that TLC offered Gennum a license at 7.2%. Feakins completely ignores this fact and simply concludes, with no factual or legal support, that the use of an established royalty rate in this case would be unjust. This approach was expressly rejected by the Federal Circuit in Stickle (trial court improperly failed to consider the actual negotiations between the parties, see, Stickle v. Heublein, 716 F.2d at 1561).

As the district court in DSU recently noted, the Court may not exclude expert testimony simply because it disagrees with the results stated by the expert. DSU Medical Corp. v. JMS Co., Ltd., 296 F.Supp.2d at 1156. However, there is a "threshold issue of admissibility" which requires the Court to examine the connection between the opinion proffered and the reconstructed market data. Id. "If there is a sufficient connection, the opinion is admissible with its weight to be determined by the fact-finder. However, if there is too great an analytical gap between the two, the opinion is inadmissible." Id.

Feakins correctly opines that the Federal Circuit mandates damages be awarded on a basis which fully compensates the patent holder for the infringement. He also correctly notes that, in some instances, such a

---

[10] TLC's only support for its "hampering" argument consists of purely anecdotal arguments that Gennum entered into a "Joint Defense Agreement" with its end users. Even assuming that such an agreement exists, there is no evidence which shows that TLC attempted to license such end users but was prevented from doing so by Gennum. Similarly, TLC points to a letter it wrote to Ross Video inquiring as to whether such end user used Gennum's infringing chips. Again, however, even assuming Ross Video utilized Gennum's chips, there is no evidence submitted which shows that Gennum prevented TLC from negotiating a license with Ross Video or that such a license was ever obtained by TLC.

determination will require the trier of fact to calculate not only a reasonable royalty, but an additional amount, in order to assure that compensation is full and adequate. Maxwell, 86 F.3d at 1109. In fact, Feakins does examine Gennum's average gross profits on its infringing chips and concludes that Gennum enjoyed an average profit contribution of 29%. He then postulates that, based on the 7.2% standard royalty rate charged by TLC, and the 29% profit margin realized by Gennum, the parties would have agreed to a royalty rate between these two figures which, in his opinion, would have been negotiated at an 18% royalty. While this conclusion may be subject to attack at trial, it at least purports to be a reasonable royalty method of damages analysis. Therefore, Feakins may testify as to his calculations and opinions regarding this royalty rate.

However, once Feakins calculates the royalty rate which might have been negotiated between the parties, his analysis and methodology sails into unchartered waters with Federal Circuit law nowhere in sight. Rather than reconstruct the market data to account for factors actually encountered by the parties to determine an additional amount of damages which might compensate TLC for infringement, Feakins' methodology contains "analytical gaps" by applying a multiplier to the royalty rate which is based on purely fictional circumstances. These "gaps" appear in several places throughout Feakins' methodology.

First, Feakins states that he must determine " what royalty rate the parties would have arrived at *had Gennum manufactured a finished product*." Feakins Report, dated August 17, 2003, at p. 11. As noted above, however, there is no factual or legal support provided by Feakins as to why he must adopt that fiction with respect to Gennum's place in the manufacturing process. This determination is not contemplated by either the statute or the caselaw, all of which hold that the starting point of the damages calculation is the hypothetical negotiation between the "willing licensor and the willing licensee." Instead, Feakins imagines a hypothetical negotiation, in reality, between TLC and one of Gennum's customer's, Videotek. This approach is not legally or factually sanctioned.

Feakins then continues to navigate outside the appropriate expert harbor. He takes his reasonable royalty "times 10,961 times one-half of one percent [of 316]." See Feakins Report, dated August 17, 2003, at p. 12. The 10,961 figure purportedly represents how many times greater the royalty *would have been* had TLC licensed its technology to a finished product manufacturer, such as Videotek, rather than to Gennum, a component parts manufacturer. Again, therefore, this figure represents a hypothetical situation which might have existed between TLC and a third party and is not based on a hypothetical negotiation between TLC and Gennum. Similarly, the one-half of 1% of 316 represents the hypothetical number of Gennum's customers which Feakins assumes would have negotiated a license from TLC. Feakins concedes that this number is "purely judgmental" and lacks any legal or factual foundation. Feakins Deposition at pp. 240-242.

The Federal Circuit instructs that application of an additional amount, over and above a royalty rate, must be based on realistic, appropriate factors, such as royalties actually received by the patentee and the patentee's relationship with the infringer. Id. Such an additional amount may not be based on hypothetical situations which are unrealistic or on conditions which do not exist in the marketplace, such as those posited by Feakins. Feakins' application of a multiplier, which is comprised of two separate figures as noted above, renders his methodology improper. Feakins' justification for his use of a multiplier is based on the faulty factual premise that TLC would have been able to license its technology to at least two manufacturers which utilize Gennum's allegedly infringing chips had Gennum not prevented the realization of such negotiations. With this scenario in mind, Feakins attempts to create a methodology which supports his theory. However, that theory, and the methodology used to implement it, fails to comport with applicable Federal Circuit law which nowhere sanctions the use of a multiplier as Feakins employs to determine adequate compensation for infringement. Such an enhancement to the reasonable royalty calculation is simply untethered by legal or factual support.

V. Conclusion

For the reasons set forth above, TLC's proffered damages expert, Nicholas Feakins, will be precluded from rendering a patent damages analysis that purports to enhance a reasonable royalty calculation through the application of a multiplier.

Dated: March 26, 2004

/s/ Richard Seeborg
RICHARD SEEBORG
United States Magistrate Judge

THIS IS TO CERTIFY THAT COPIES OF THIS ORDER HAVE BEEN ELECTRONICALLY DELIVERED TO:

J. Donald McCarthy dmccarthy@jonesday.com, gcperez@jonesday.com

John Arai Mitchell mitch.mitchell@kmzr.com,

Mary Agnes Tuck matuck@jonesday.com,

Counsel are responsible for distributing copies of this document to co-counsel who have not registered for e-filing under the Court's CM/ECF program.

Dated: 3/26/04 **Richard W. Wieking, Clerk**

By:____DM____________________
Chambers